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**SF 2337** – Child and Dependent Care Tax Credit (LSB 5581SV)  
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Fiscal Note Version – New

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**Description**

**Senate File 2337** makes changes to the existing Iowa Child and Dependent Care Tax Credit. Increases each of the seven adjusted gross income (AGI) brackets. Under current law, the top qualifying AGI level is \$45,999. Under this Bill, the top level is \$67,409.

- Indexes the income brackets for inflation going forward.
- Raises the Iowa tax credit percentage for each of the seven AGI brackets. Under current law, the credit ranges from 30.0% of the federal credit amount to 75.0%. Under this Bill, the credit percentage ranges from 37.5% to 93.75%.
- Modifies the requirement that the Iowa Child and Dependent Care Tax Credit be calculated as a function of the federal tax credit. Under the federal calculation, the tax credit can be limited by a lack of federal tax liability for the taxpayer. The change will allow the taxpayer to benefit from the full Iowa tax credit even in instances where they were not allowed the full calculated federal credit due to insufficient federal tax liability.

The changes are retroactive to January 1, 2014 (tax year 2014).

**Assumptions**

The income tax reduction associated with the Bill's enhancements to the existing Child and Dependent Care Tax Credit was estimated using the Department of Revenue individual income tax micro-model. The conversion of tax year impacts to State General Fund fiscal year impacts was completed using historical patterns of income tax withholding, estimates, final returns, and refunds.

**Fiscal Impact**

This Bill's enhancements to the Child and Dependent Care Tax Credit are projected to reduce net General Fund revenue by the following amounts:

- FY 2014 = \$0.1 million
- FY 2015 = \$9.1 million
- FY 2016 and after = \$9.0 million

**Source**

Department of Revenue

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/s/ Holly M. Lyons

March 17, 2014